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Peer-to-Peer (P2P) Lending Explained: Benefits, Risks, and How It Works

By JULIA KAGAN Updated September 25, 2025

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Fact checked by AMANDA BELLUCCO-CHATHAM

Part of the Series
Personal Loan Guide

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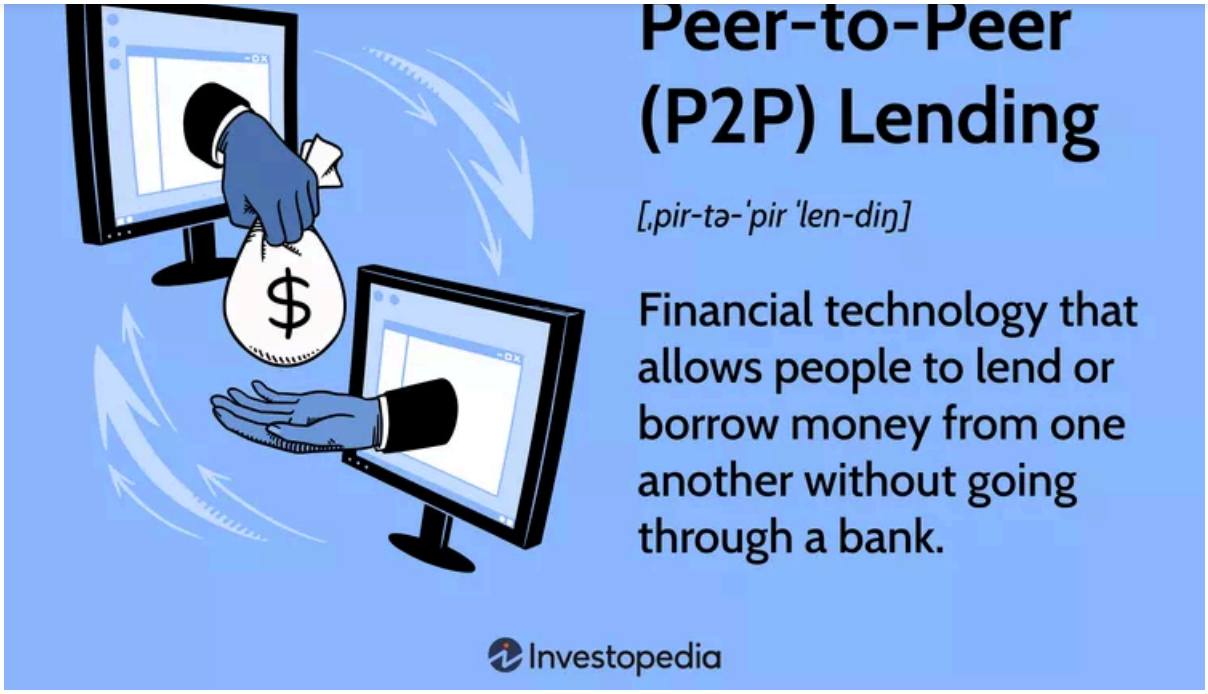
Peer-to-Peer
(P2P) Lending
[ˌpir-tə-ˈpir ˈlen-diŋ]
Financial technology that allows people to lend or borrow money from one another without going through a bank.
Investopedia

Credit: Investopedia / Mira Norian

What Is Peer-to-Peer (P2P) Lending?

P2P lending connects individual borrowers with individual lenders (investors), bypassing traditional financial institutions. P2P lending is also referred to as "social lending" or "crowd lending." Obtaining better interest rates is a common motivation for borrowers in this market. For lenders, borrower defaults can be more common than for traditional lenders. Various P2P platforms facilitate P2P lending, each with its own terms and risk assessments.

KEY TAKEAWAYS

- P2P lending platforms offer
  borrow money without the i
  potentially lower interest ra
  lenders.
- Despite the attractive return
  significant risks, including h
  financial institutions, makin
  thiness and terms

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increased financial accessibility, albeit often at a higher cost.

- The peer-to-peer lending process generally involves platforms that facilitate the connection between borrowers and lenders, with varying rates and terms dictated by the borrower's risk category determined by the platform.
- While P2P lending can offer greater returns than traditional savings options, it does not come with government-backed guarantees, increasing the importance of understanding platform-specific fees and risks.

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Understanding the Process of Peer-to-Peer Lending

P2P lending websites connect individual borrowers directly to individual lenders. Each platform sets its ow
range of interest rates based on th

Typically, the process works like t
site and deposit a sum of money t
financial profile and be assigned t
rate they will have to pay to borro

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accept multiple offers.) The money transfers to the borrower and the monthly loan payments to the lender are handled through the platform. The process can be entirely automated, or lenders and borrowers can choose to haggle.

Some sites focus on specific types of borrowers or loans. The nonprofit Kiva, for example, allows investors to support entrepreneurs and others in the U.S. and around the world, many without access to traditional lending institutions. [1]

The Evolution of Peer-to-Peer Lending

P2P lending, in its present form, dates back to 2005. [2] Early on, it primarily provided access to credit for people spurned by conventional financial institutions and for students who wanted to consolidate their loan debts at a more favorable interest rate.

The interest rates for applicants with good credit are often lower than comparable bank rates, while rates for applicants with sketchy credit records may go much higher.

For people who lend, P2P lending offers higher interest income than savings accounts or CDs, but lacks government guarantees.

Assessing the Risks of Peer-to-Peer Lending

People who wish to lend money through a P2P site need to consider the possibility that their borrowers wi
defaults on P2P platforms are mo
sometimes over 10%. [3] [4]

Since 1986, the Federal Reserve sh
7.5% and were 1.44% in Q2 2024. [

Investors should also check the tr
s money differently

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others.

Is Peer-to-Peer Lending (P2P) Safe?

Peer-to-peer lending is riskier than keeping your money in the bank, but the interest rates are often much higher. This is because people who invest on peer-to-peer lending sites assume most of the risk, without the backing of a bank or the Federal Deposit Insurance Corporation.

How Do You Invest in Peer-to-Peer Lending?

The simplest way to invest in peer-to-peer lending is to create an account on a P2P lending site, put some money into it, and begin lending. These platforms typically let the lender select the profile of their preferred borrowers, so they can choose between high risk with potentially high returns or lower risk with more modest returns. Alternatively, many P2P lending sites are public companies, so you can also invest in them by buying their stock.

The Bottom Line

P2P lending allows individuals to bypass traditional banks by offering direct financial interactions with individual lenders. But it comes with notable risks for lenders, including higher default rates. It provides an alternative financing option for individuals and businesses that might not qualify for bank loans, though at potentially higher costs. The P2P model offers attractive interest rates for lenders seeking better returns than conventional savings, despite the absence of government insurance affecting both lenders and borrow any agreement before signing.

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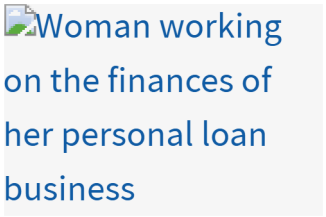

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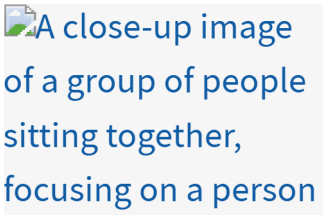

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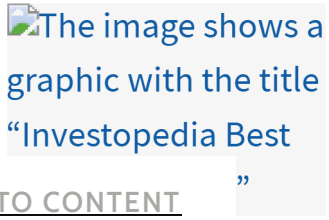

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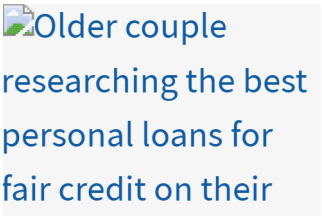

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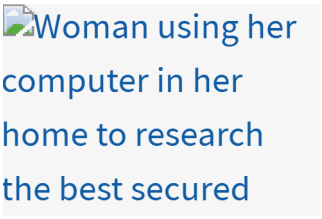

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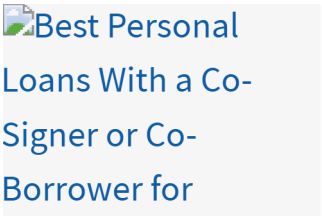

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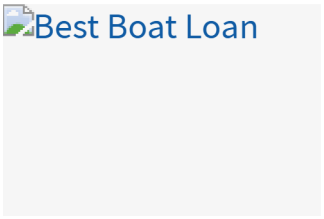

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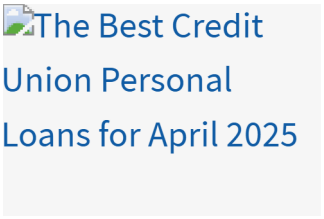

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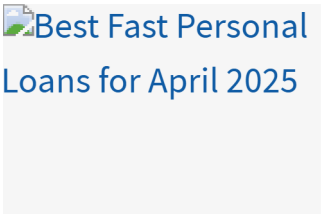

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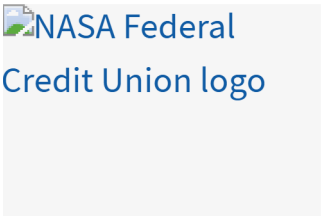

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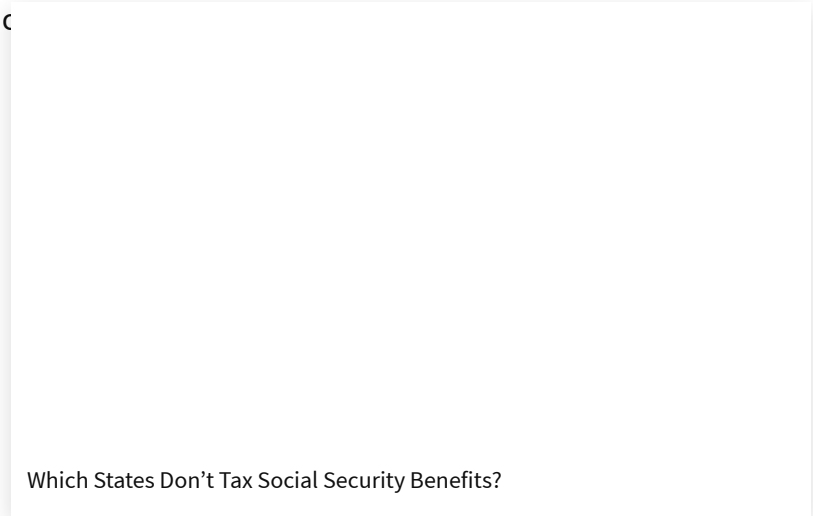
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